

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-02 /140 W
-----069378 091134Z /12

R 091111Z JUL 78
FM AMEMBASSY MANAMA
TO SECSTATE WASHDC 6400
INFO AMEMBASSY ABU DHABI
AMEMBASSY DOHA
AMPBNSUL DHAHRAN 928
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY MUSCAT

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E.O.* 11652:: N/A
TAGS: ENRG, BA
SUBJECT: GASOLINE PRICE INCREASE IN BJHRAIN

1. IN WHAT APPEARED TO BE A SUCCESSFUL ""SECRET"
OPERATION THE GOB ANNOUNCED A SIGNIFICANT INCREASE
IN GASOLINE, DIESEL, KEROSENE AND LPG ON THE MORNING
OF JULY 1. WHILE MOST NEWSPAPERS HAD THE STORY FOR
THE DAY'S EDITIONS, THE GOVERNMENT'S MOVE WAS
REMARKABLY WELL-GUARDED FOR BAHRAIN. THAT MORNING
GOVERNMENT TEAMS WERE PRESENT AT RETAIL DEALERS TO
MEASURE EXISTING STOCKS AND ASSESS THE EXTRA PAYMENT
BEFORE THEY WERE ALLOWED TO SELL AT THE NEW PRICES.

2. THE MINISTER OF DEVELOPMENT AND INDUSTRIES STATED
THAT THE PRICE INCREASE HAD THREE GOALS: TO STOP
WASTEFUL USE BY MAKING PEOPLE MORE PRICE CONSCIOUS:
TO OFFSET PART OF THE GOB SUBSIDY ON PETROLEUM PRODUCTS:
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AND TO STOP THE OUTFLOW OF THESE PRDUCTS TO NEIGHBORING
COUNTRIES BECAUSE OF BAHRAIN'S ARTIFICIALLY LOW PRICES.
THE MINISTER SAID THAT AN ABNORMALLY LARGE VOLUME OF
BAHRAIN'S PETROLEUM PRODUCTS WERE GOING TO SHIPS, TUGS,
AND OFFSHORE OIL INSTALLATIONS WHO WOULD NORMALLY BUY AT
INTERNATIONAL PRICES. BAHRAIN WAS THERFORE SUBSIDIZING
THE ECONOMIC ACTIVITIES OF THE WHOLE AREA.

3. THE PRICES OF GASOLINE WERE INCREASED FROM 30 FILS PER LITRE TO 40 FILS; DEISEL FROM 18.5 FILS PER LITRE TO 25 FILS; KEROSENE FROM 15.85 FILS TO 20 FILS PER LITRE; AND LPG FROM 55 FILS TO 70 FILS PER KILO (1,000 FILS EQUEL \$2.50). THE NEW GASOLINE PRICE OF 40 FILS IS STILL CONSIDERABLY BELOW THE PRICES IN UAE, OMAN, IRAN AND IRAQ WHICH RANGE FROM 65-80 FILS PER LITRE. THE NEW PRICES STILL INCLUDE A SIGNIFICANT SUBSIDY AS THE GOB ESTIMATES THE BREAK-EVEN PRICE HERE AT 60-65 FILS PER LITRE.

4. EMBASSY COMMENT: IN ANNOUNCING THIS PRICE INCREASE GOB OFFICIALS DROPPED A NUMBER OF HINTS THAT THIS MIGHT NOT BE THE LAST SUCH INCREASE IN THE IMMEDIATE FUTURE. THE EMBASSY WOULD EXPECT SOME FUTURE PRICE ADJUSTMENTS IN THE PETROLEUM AREA AND PERHAPS ALSO IN THE FOOD SUBSIDIES. GOB OFFICIALS ACKNOWLEDGE THAT THEIR PRICE SUBSIDY PROGRAM, WHICH APPEARED NECESSARY DURING THE RECENT PERIOD OF RAPID WORLD PRICE INCREASES, CAN ONLY PUSH BAHRAIN INTO ECONOMIC DIFFICULTIES IF MAINTAINED TOO LONG AND TOO RIGIDLY. AS IN ANY PRICE CONTROL PROGRAM, HOWEVER, THE PROBLEM IS HOW TO DISMANTLE SUCH CONTROLS WITHOUT THE MAJOR BURDEN FALLING ON THE POOREST CLASSES. THIS PROBLEM IS NOT SO GREAT WITH THE PETROLEUM SUBSIDIES AS IT

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WILL BE WITH FOOD SUBSIDIES. THE \$3.4 MILLION ANNUAL SAVINGS TO THE GOB ESTIMATED TO RESULT FROM THE PETROLEUM SUBSIDY ADJUSTMENT WILL BE ANOTHER INCENTIVE TO FURTHER SUBSIDY REDUCTIONS.

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